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ARAB INVESTMENT IN AFRICA AND THE TRILATERAL VENTURE,(U)
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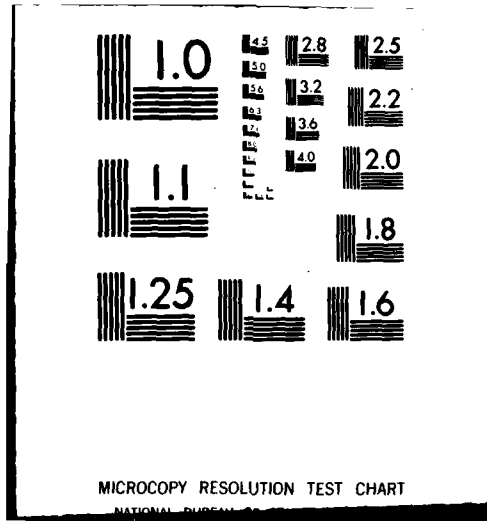
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ARAB INVESTMENT IN AFRICA AND THE
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I. Introduction

"Arab investment," for purposes of this paper, refers primarily to non-concessional resource flows for productive purposes emanating from Arab states or institutions they control. For all practical purposes, such states consist of four Arab oil producers -- Saudi Arabia, Kuwait, the United Arab Emirates, and Qatar -- whose limited absorptive capacities enable them to accumulate substantial capital surpluses. While they have provided the African continent with relatively significant amounts of aid and other forms of concessional flows, their investments thus far have been much less important. Consequently, much of what follows in this paper is based on fragmentary evidence drawn from a very few African countries, and particularly the Sudan.

II. Arab Investment Strategies and Motivations

The factors influencing investment choices of the Arab oil producers quite naturally vary from country to country and from institution to institution; however one can discern

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certain common trends and policies throughout the Arabian Peninsula. Since it is the state, rather than private individuals or institutions, which controls the bulk of Arab surplus funds, government policies and actions are primary determinants in encouraging or inhibiting Arab investment in Africa. Moreover, institutions financed by public capital have thus far been the major investors of Arab funds in Africa and will no doubt continue to assume this role in the future. In Kuwait, for example, the primary investment house with interests in Africa and the developing world is the Kuwait Foreign Trading Contracting and Investment Company, 80% of whose shares are owned by the Kuwaiti government.

Private Arab capital, with a few exceptions, has refrained from significant investments in the developing world. Where it has done so, its overriding objective has been investment stability and protection of capital against inflation and monetary devaluation. As a result, it has tended to concentrate heavily in real estate development and touristic projects where land is a major component.

The governments of the oil states give first priority in the use of surplus capital to the development of their own domestic economies. "Development" in this context means above all lessening their dependence upon oil and replacing this wasting asset with stable, income-producing investments.

Recognizing that their small populations and limited resource bases may never absorb their surplus entirely or

offer domestic investments fully capable of replacing revenues derived from oil, the governments of the surplus states are forced to look outside their borders to find uses for their funds. With respect to investments abroad, their declared policy is to give first priority to other Arab countries, then to the developing world generally, and finally to the industrialized countries. Until they are able to identify and develop productive, long-term investments, the oil producers have chosen to hold the bulk of their surplus funds in the currencies and short-term obligations of Western countries; however, this method of storing value has proven less than satisfactory due to substantial losses in purchasing power from inflation and monetary devaluation.

While a shift to longer term investments in the West may be one way of confronting monetary risks -- a trend which now seems to be developing to a certain extent -- such a course also has its risks since dependence on the West as a place of investment makes Arab states vulnerable to Western political pressures. Nor are they comfortable with their reliance on Western countries as a source of food and manufactured goods. As net importers of food and without an agricultural base to speak of, they are becoming increasingly sensitive to what they choose to call their "food security problem" which renders them vulnerable to increases in commodity prices and Western political influence

The desire to diversify their investments geographically and to develop alternative, close sources of food and manufac-

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tured goods would appear to favor the investment of a portion of their surplus capital in African countries and elsewhere in the Third World. In addition, it is hoped that these countries may in turn become major markets for certain products, such as petrochemicals and fertilizers, which the oil states hope one day to supply.

Geographic proximity to the Arabian Peninsula, a desire to preserve stability in contiguous areas, and a shared religion and cultural links are also factors which may influence Arab investment decisions in certain parts of Africa. In providing aid to Africa, the Arab oil producers have tended to favor Arab countries first, then other Moslem nations, and finally friendly countries. Thus, for example, on the African continent, Egypt and the Sudan have been the principal beneficiaries of Arab capital flows. It is likely that Arab investments will follow a similar pattern of geographic concentration, for certain oil states, particularly Kuwait, consider an important function of their aid program to be the creation of infrastructure and of a general climate that will facilitate subsequent commercial investment.

The oil states have argued that developing countries -- particularly those that are Arab themselves -- should formulate policies to foster the investment of Arab capital, perhaps even favor it over other forms of foreign investment. Various justifications are advanced for this position. Having received aid from the Arabian Peninsula on generous terms, the African

states, it is argued, have reason to believe that Arab

commercial investment will come in large quantities and under favorable conditions. Certain quarters also argue that Arab capital is different from other forms of foreign capital in that it presents fewer dangers to national sovereignty and the domestic political order, since it emanates from small, militarily weak countries and is not generally associated with large multi-national enterprises. In practice, however, few host countries -- even in the Arab world -- appear to have thrown the door open wide to any and all projects originating from the Arabian Peninsula. They have generally established procedures requiring approval by a governmental agency before an investment may actually be undertaken, and they do not appear to apply to Arab projects standards or methods of evaluation different from those applicable to other foreign investment proposals. Indeed, instances have occurred when a host country, in an effort to protect what it considered legitimate national interests, became embroiled in severe conflict with a prospective source of Arab finance. Sometimes the reason for the problem was that the deficit states expected easier terms from Arab capital institutions than from those outside the Region. Conversely, Arab investors sometimes demand better treatment than would be accorded to investors from the West. In either event, disappointed expectations may make agreement on investment proposals difficult.

The types of investments favored by Arabs may also tend

to generate conflict with African host country governments. On the one hand, the drive for investment stability and protection of capital against inflation and monetary devaluation has led Arabs to concentrate heavily in real estate development and projects where land is a major component. On the other hand, host countries with heightened desire to preserve sovereignty over their land and natural resources feel a growing need to regulate strictly the entry by foreign investors, Arab or otherwise, to this domain of economic activity.

III. Constraints on Arab Investment in Africa

Arab capital faces many of the same obstacles encountered by Western firms in undertaking investments in Africa, including political instability, bureaucratic inertia, lack of infrastructure, inadequacy of local financial institutions, and excessive government control over economic activity. But because Arab capital emanates from state and government sources, it may seek to protect itself through agreements with the host country that grant it rights and privileges usually reserved for foreign governments and not ordinarily available to the private foreign investor.

At the same time, Arab investment in Africa faces many problems not faced by investment from the West. One of the most significant of these is the lack of appropriate economic and financial institutions within the capital-exporting states themselves. Financial institutions, as Raymond Goldsmith has suggested, "facilitate the migration of funds to the best user,"

and it is only recently that the Arab states have begun to develop institutions to facilitate the migration of funds to Africa for investment purposes.

While the Arab World has created numerous aid institutions, most notably its new development funds, it still has few institutions devoted to commercial investment and finance in Africa. This relative lack of institutionalization of Arab capital has meant that Arab capital sources generally do not possess the technology, management skills, or access to world markets necessary to undertake investment projects on the African continent. Indeed, many Arab financial organizations do not have sufficient capacity even to identify and evaluate investment proposals that might be pursued. Since the host countries themselves may also be unable to provide these elements and since the industrialized countries do possess them, it has been argued that the most appropriate vehicle for the investment of Arab funds in Africa and the developing world is the "trilateral venture" uniting Arab capital, Western know-how, and host country manpower and resources in a single productive enterprise.

IV. The Trilateral Concept and Its Problems

Proponents of the trilateral concept assert that it represents a "non-zero sum game," in that it is a means to achieve useful projects that neither Arab investor, Western firm, nor developing country government would be able or willing to

undertake alone. It offers western firms the prospect in developing countries of increased sales of technology and expanded markets for their products without the political and financial risks inherent in a large direct investment. Moreover, through their association with Arab partners, they may forge useful links to the lucrative markets and sources of finance in the Arabian Peninsula.

For Arabs, the trilateral concept facilitates the acquisition of know-how and management skills in which they have confidence and without which they would be unable to undertake investments in developing countries. Trilateralism would therefore appear crucial in any attempt to diversify their holdings outside the West and to create enterprises satisfying certain of their agricultural and industrial needs. Moreover, trilateralism may afford the host country the means to acquire the necessary technology for development without giving Western multi-national firms a large equity interest which might affect national sovereignty and have serious internal political implications.

Despite significant efforts by multi-national companies and international banks to mobilize Arab capital, the trilateral project has yet to become a reality as the model investment in Africa or elsewhere in the developing world for that matter. The results of the past few years might lead the skeptic to conclude that in the art of the joint venture, like the art of love, two is company but three is a crowd. Nonetheless, it would

appear that the two fundamental assumptions underlying the trilateral concept remain valid. First, many Western firms are unwilling to make large capital investments in Africa, but they do wish to supply technology and know-how. Second, Arab investors, by and large, consider an association with a Western technology partner--particularly one with an established international reputation -- as the sine qua non for an investment in a developing country.

The application of the trilateral idea in Africa has encountered a number of difficult conceptual, institutional, and operational problems. For example, a major obstacle has been the insistence of prospective Arab capital partners that the proposed Western technology partner make an equity investment in the venture, a condition which many Western firms have refused. If nothing else, such equity contribution serves to give the Arab partners confidence in the quality of the know-how being provided. The desired percentage of Western equity participation varies according to the nature of the project; however, interviews with Arab investors revealed the range of such minimum participation to be between 10% and 33%.

Another conceptual problem concerns the respective rights and powers, particularly with regard to control and management of the venture, to be attributed to Arab capital on the one hand and Western technology on the other in the project package. The Arab capital partners have usually felt that their contribution of the majority of the capital should give them the right to exercise control, while western firms argue that their techno-

logical contribution should give them authority over the project.

Because of their newness, many Arab financial organizations were slow to respond to Western overtures, since they themselves had not yet fully developed their own capabilities, policies, and procedures. Public sources of capital have been particularly cautious about forming relationships with Western multi-national firms, largely for political reasons or at least fear of political repercussions. While private sources have been less sensitive to this factor, they have also been much less visible than public organizations and have clung to confidentiality; consequently, Western firms have had difficulty, at least at first, in identifying them.

A further question concerns which of the three sides -- Western, Arab, or local -- should take the lead in promoting the project and putting together the financial package. There is no uniform answer to this question and different projects have been promoted by different parties. Generally speaking, however, because both Arab capital sources and developing countries lack extensive capability in project identification and preparation, one finds that Western firms have been the most active in this respect. On the other hand, there is some evidence to suggest that local interests have been successful in identifying and advancing projects most suited to the needs and conditions of the developing country.

The lengthy task of merely identifying a potential capital partner is followed by an even more time-consuming process of working out the project agreement. Generally, because the parties are strangers to one another and are not negotiating against a shared background and experience, negotiations for trilateral projects tend to be lengthy, and much time is devoted to familiarizing the parties with one another. Moreover, because the parties have usually had no previous dealings with each other, and therefore have little basis for mutual confidence, they often seek special protective devices, such as veto powers over certain questions, in order to protect themselves against possible unfavorable action by the other partners during the course of the project.

Additional factors complicating trilateral ventures include conflicting investment strategies of the three parties, differences over choice of technology and the extent which foreign (as opposed to local African) management is needed, the lack of supporting staff in Arab organizations, and the sometime cavalier western attitude that a trilateral venture is really just a matter "of your money and our brains."

V. Conclusion: The Prospects of Trilateralism in Africa

Trilateralism is clearly not a magic formula that will obliterate the constraints and bottlenecks impeding the mobilization and investment of Arab capital in Africa.

Indeed, those constraints will probably limit severely the investment of Arab capital in Africa for some time to come. On the other hand, it would appear that increased Arab investment in Africa will result in increased trade and investment opportunities for American firms. Little evidence exists to suggest that Arab capital has deprived U. S. companies of investment opportunities that they might otherwise have had.

The constraints on the formulation of trilateral ventures may ease as American and western firms gain more knowledge about Arab capital sources, and as the institutionalization of Arab capital progresses with its concomitant development of professional skills, particularly with respect to project identification, preparation, analysis and management. Through increased knowledge and interaction, the three sides may gain a more accurate and realistic understanding of each other's objectives and capabilities and thereby lay a more solid foundation for trilateralism in Africa. African governments may be able to advance this process by formulating specific project proposals and promoting such projects among the Arab financial institutions. If a project has the active endorsement of the host country, it is likely to receive a far better hearing by Arab capital institutions than if a Western firm appears to be its sole sponsor.

Arab, African, and western governments might attempt to use the trilateral concept as a basis for development cooperation in Africa and for fostering increased resource transfers to the continent.

Arab, African and Western governments and institutions might explore the possibilities of improving opportunities for trilateralism through cooperative programs aimed at easing some of the bottlenecks and constraints now inhibiting Arab capital investment in productive projects in Africa. For example, they might create an organization to undertake feasibility studies and prepare investment projects. The resulting organization, as compensation for its work, might receive a participation in the projects it prepared, and through this process eventually become self-sustaining.

Arab, African,^{and} Western governments and institutions together might also seek to organize training programs aimed at increasing the level of African skills, as well as those of the oil countries themselves, with respect to investment planning, analysis, negotiation and management.

The possibilities of trilateral cooperative action are numerous; however, an indispensable condition precedent to their realization is an effective means of dialogue among the three sides. It would seem that the likelihood of fruitful discussion would be much improved if the African states with U.S. encouragement took the lead in trying to establish and promote such dialogue. An initial step toward this end, might consist of a series of meetings or conferences in Africa at which the three sides might explore means for trilateral cooperation in such areas as project planning, preparation and management.